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Debt Burden Four Years After College

Executive Summary

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Susan P. Choy
MPR Associates, Inc.

C. Dennis Carroll
Project Officer
National Center for Education Statistics

**U.S. Department of Education
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U.S. Department of Education
Richard W. Riley
Secretary

Office of Educational Research and Improvement
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Washington, DC 20006

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Contact:

Aurora D'Amico
(202) 219–1365

Executive Summary

Federal student loan programs are a major source of financial aid for students in postsecondary education. Loans provide students lacking the financial resources to attend college with a way to invest in their futures. However, excessive borrowing can cause problems later. Therefore, it is important to identify and describe the postgraduation consequences of borrowing and to understand what levels of borrowing may cause trouble later on.

This study examines the debt of 1992–93 bachelor’s degree recipients in light of their financial circumstances in 1997, approximately 4 years after they earned their degree. First, it reviews the amount they borrowed as undergraduates and describes any additional borrowing by those who had enrolled in a graduate degree program. Amounts borrowed through student loan programs, from parents, and from other private sources are all included. Next, it examines the progress that borrowers had made in repaying their student loans by 1997. Finally, the study describes their debt burden by examining the relationship between student loan payments and income and by searching for other indications of the impact of borrowing. It does this by comparing borrowers at various levels with nonborrowers in terms of their expenditures for certain major items such as rent or a mortgage, a car, and credit card purchases, and by examining how borrowing affects specific lifestyle choices such as family formation, buying a home or car, and saving. The analysis uses data collected through the 1992–93 Baccalaureate and Beyond Longitudinal Study (B&B:1993) and the two follow-ups

conducted in 1994 and 1997 (B&B:1993/1994 and B&B:1993/1997).

The analysis distinguishes among three groups of undergraduate borrowers: 1) those with no further postsecondary enrollment by 1997 (53 percent of all undergraduate borrowers); 2) those who enrolled for further postsecondary education after receiving their bachelor’s degree but nevertheless were in repayment in 1997 (24 percent of all undergraduate borrowers); and 3) those who enrolled for further education but were not in repayment in 1997 (23 percent of all undergraduate borrowers).

Borrowing for Education

One-half of all 1992–93 bachelor’s degree recipients borrowed to help pay for their undergraduate education. Those who took out loans borrowed an average of \$10,100. By 1997, 29 percent of all bachelor’s degree recipients had enrolled in a graduate degree or first-professional degree program. One-half of them (14 percent) had borrowed to help pay for their graduate education, and the other half had not.

The amount borrowed for education varied with graduates’ postbaccalaureate experience. For those with no further enrollment after the bachelor’s degree, 51 percent had borrowed for undergraduate education; the average amount borrowed was \$10,500. Among undergraduate borrowers who had completed a master’s degree by 1997, 69 percent had borrowed to help pay for their education at one or both levels, and the average total amount borrowed (including both levels) was

\$20,800. Among undergraduate borrowers who had completed a first-professional degree by 1997, 9 out of 10 had borrowed, with an average of \$63,400 borrowed in total.

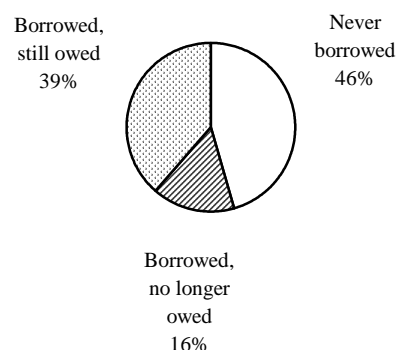
Undergraduate borrowing appears to have a minor discouraging effect on further enrollment in the short term. Undergraduates who borrowed \$5,000 or more were slightly less likely than non-borrowers to have enrolled for further education by 1994 (16 percent versus 20 percent). This effect persisted even after controlling for sex, race/ethnicity, age when they received their degree, type of institution from which they graduated, undergraduate major, and grade point average (Choy and Geis 1997). However, the early negative impact of borrowing had disappeared by 1997, when (controlling for the same factors) there was no statistically significant relationship between undergraduate borrowing and enrolling in either a graduate degree program or any other postsecondary program.

Debt Status in 1997

The debt status of the 1992–93 bachelor's degree recipients in 1997 can be summarized as follows: 46 percent did not owe any money because they had never borrowed at either the undergraduate or graduate levels; another 16 percent had borrowed at one or both levels, but no longer owed on those loans; and the remaining 39 percent still owed on education loans (figure A).

Figure B shows the percentages who borrowed, still owed, and were in repayment in 1997, by education status as of 1997. It also shows the associated average amounts in each case. Too few doctoral students had completed their degrees by 1997 for reliable estimates of their debt status. The difference between the percentages who borrowed and who still owed represents the propor-

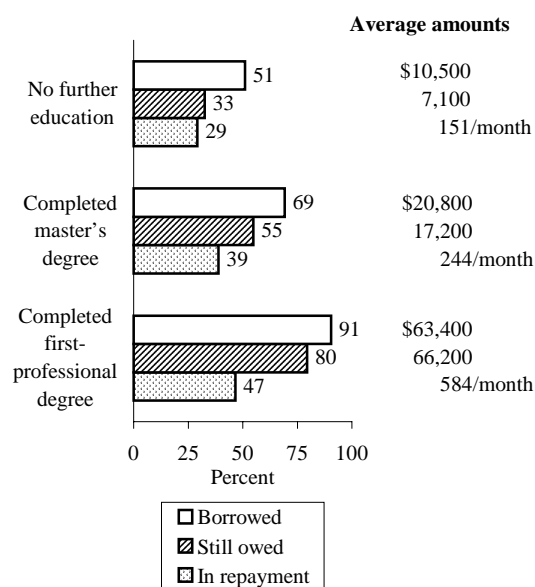
Figure A—Percentage distribution of 1992–93 bachelor's degree recipients according to debt status in 1997



NOTE: Based on borrowing at both undergraduate and graduate levels. Percentages may not sum to 100 due to rounding.

SOURCE: U.S. Department of Education, National Center for Education Statistics, 1993 Baccalaureate and Beyond Longitudinal Study, Second Follow-up (B&B:1993/1997), Data Analysis System.

Figure B—Percentages of 1992–93 bachelor's degree recipients who had borrowed for education, still owed, and were in repayment, by level of education after bachelor's degree: 1997



NOTE: Based on borrowing at both undergraduate and graduate levels.

SOURCE: U.S. Department of Education, National Center for Education Statistics, 1993 Baccalaureate and Beyond Longitudinal Study, Second Follow-up (B&B:1993/1997), Data Analysis System.

tion who had repaid their loans (or had them forgiven) by 1997. The difference between the percentages who still owed and who were in repayment represents the proportion with deferments, who were in default, or who were not required to repay loans at that time. Figure B also shows the average amounts borrowed and owed, and the average being paid on a monthly basis.

The 1992–93 bachelor’s degree recipients who had borrowed as undergraduates but had not enrolled for any further education had made some progress in eliminating their debt by 1997. Among 1992–93 bachelor’s degree recipients who had not enrolled for any additional postsecondary education by 1997, 51 percent had borrowed for their undergraduate education, and 33 percent still owed on those loans in 1997. Thus, 18 percent had paid off their education debts (or had them forgiven). Almost all of those who owed were in repayment (the difference between the 33 percent who owed and the 29 percent who were in repayment is not statistically significant).

Among 1992–93 bachelor’s degree recipients who had earned a master’s degree by 1997, 69 percent had borrowed at one or both levels. By 1997, about 14 percent had been able to discharge their debt despite earning a second degree, and 55 percent still had outstanding loans. Thirty-nine percent were making payments, which means that about 16 percent were not being required to make payments, most likely because they had just recently completed their degree and were still in deferment. The average amount still owed by master’s degree holders was substantially greater than the amount still owed by those who had not enrolled for further education (\$17,200 versus \$7,100).

Among 1992–93 bachelor’s degree recipients who had earned a first-professional degree by

1997, 91 percent had borrowed to help pay for their education, and most (80 percent) still owed on their loans. Because first-professional programs usually take at least three or four years to complete, most would have graduated very recently. Thus, a comparatively low proportion (47 percent) were in repayment in 1997. The average amount owed by this group (\$66,200) was substantially higher than the average amount owed by those who had completed a master’s degree (\$17,200). This difference reflects higher tuition, more frequent full-time enrollment, limited time to work while enrolled, and little time after undergraduate enrollment to accumulate savings.

Although it appears that the average amount owed is greater than the average amount borrowed for those who had completed a first-professional degree (\$66,200 versus \$63,400), the difference is not statistically significant. It is likely that the few who no longer owed had taken out relatively small loans, leaving those with high loan amounts still owing. This would have the effect of raising the average amount owed after the smaller loans were removed. Furthermore, some borrowers may have had the accrued interest on their loans added to the principal while they were enrolled and thus increased the amount owed.

Debt Burden

Monthly Loan Payments as a Percentage of Income

The undergraduate borrowers with no further enrollment by 1997 were well positioned to repay their loans. Almost all (88 percent) were employed full time, and their average income in 1996 was \$35,300. The median monthly debt burden (the percent of monthly income used to repay loans) for those in repayment was 5 percent. Approximately 8 out of 10 had debt burdens of less

than 10 percent. To place this debt burden in context, housing lenders typically use an 8 percent rule for student loan debt.

The median debt burden of those who had further enrollment but were repaying their loans was similar to the median debt burden of those with no further enrollment (6 percent).

About half of undergraduate borrowers were married in 1997. The median household debt burden was 3 percent for those without further enrollment. Even among those where the total amount borrowed by both spouses was \$15,000 or more, the median debt burden was 5 percent. Thus, the added income of a spouse appears to lessen the burden of student loans.

Other Indicators of Debt Burden

Among 1992–93 bachelor’s degree recipients, there is no evidence that borrowing for education affects lifestyle choices such as the timing of marriage or major purchases such as a car or house. One-half (50 percent) of nonborrowers were married in 1997, as was also true for borrowers. The percentages who were married in 1997 did not differ among any of the three groups of borrowers (those with no further enrollment, those with further enrollment but in repayment, and those with further enrollment and not in repayment) or between any of these groups of borrowers and nonborrowers. Also, no differences were observed in the percentages owning a car or another vehicle in 1997: about 9 out of 10 did so regardless of borrowing or enrollment status.

There was one difference regarding the purchase of a house or condominium. Those who borrowed for undergraduate education, enrolled for further education, and were not in repayment were

less likely to own a house or condominium in 1997 (34 percent) than were nonborrowers or borrowers with no further enrollment (43 percent each). This finding might reflect the fact that many of those with further enrollment who were not in repayment were still enrolled in 1997.

The percentages of 1992–93 bachelor’s degree recipients who were saving money might also provide clues as to whether education debt causes economic hardship for undergraduate borrowers. If repaying education loans were causing serious financial stress, one might expect to see those with high debt burdens less likely to save. However, this was not the case. Among those who borrowed for their undergraduate education but did not enroll for further education, 70 percent were saving for some purpose in 1997, the same percentage as nonborrowers. A similar proportion of those who enrolled for further education and were repaying their loans in 1997 were saving (66 percent). Among those who enrolled for further education and were not repaying their loans in 1997, 60 percent were saving. This was a smaller percentage than that for borrowers who had not continued their education or for nonborrowers (70 percent each); however, some were still enrolled and therefore might not be expected to be saving.

Conclusion

About one-half of all 1992–93 bachelor’s degree recipients borrowed to help pay for their undergraduate education, and about one-half of the 28 percent who went on to graduate school borrowed, either as new or continuing borrowers. By 1997, approximately four years after they graduated, 62 percent of the 1992–93 bachelor’s degree recipients were debt free (46 percent had never borrowed at either level and 16 percent had borrowed but no longer owed).

Among those with no further enrollment after their bachelor's degree, those who still had debt in 1997 (33 percent) owed an average of \$7,100, and were making education loan payments averaging \$151 per month. Most were well positioned financially to make these payments: 88 percent were employed full time in April 1997 and if employed full time were earning an average of \$35,300. The median debt burden (monthly payments as a percentage of monthly income) was 5 percent. Being married tended to reduce debt burden. Overall, borrowing does not appear to affect major lifestyle choices or purchases or the propensity to save.

For 1992–93 bachelor's degree recipients, undergraduate borrowing did appear to have a slight negative effect on graduate enrollment by 1994. However, the effect had disappeared by 1997.

Reference

Choy, S.P. and Geis, S. (1997). *Early Labor Force Experiences and Debt Burden* (NCES 97–286). U.S. Department of Education, National Center for Education Statistics. Washington, DC: U.S. Government Printing Office.